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UNCLAS SECTION 01 OF 02 MEXICO 001477

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SUBJECT: MEXICO LOOKS TO CONSOLIDATE CENTRAL AMERICAN TRADE AGREEMENTS

¶1. (SBU) SUMMARY: Mexico will launch negotiations later this year with its Central American neighbors to consolidate its three trade agreements in the region into one treaty. With this initiative, Mexico appears to be looking beyond the current global crisis and position itself as the fulcrum of commercial activity between Central and North America, and even Asia. Trade with these Central American neighbors is but a small percentage of Mexico's overall trade, but is an important step in Mexico's trade strategy for future export growth and market diversification. END SUMMARY.

¶2. (U) Last week at an annual convention of Mexican exporters, Undersecretary of Foreign Commerce Beatriz Leycegui announced that the Mexican Secretariat of Economy will launch negotiations in July with its five Central American trading partners to secure a single trade agreement. The consolidated treaty will attempt to harmonize the various regulations, including cumulation, rules of origin and tariffs, contained in the three trade agreements signed with Costa Rica in 1995, with Nicaragua in 1998, and with the Northern Triangle of El Salvador, Guatemala and Honduras in 2001.

¶3. (SBU) Mexico's Director General for International Trade Negotiations, Juan Carlos Baker, told EconOff on May 26 that the five governments agreed to the Mexican proposal following a meeting between Undersecretary Leycegui and her Central American counterparts in Managua earlier this year. Baker was less optimistic than Leycegui as to the timeline, saying that he did not think movement was likely until perhaps next year. The six trading partners have just begun to examine the agreements, and there might be some sticking points that would impede quicker action. However, Baker pointed out that the agreements are very similar; for example, the rules of origin are not that different.

¶4. (U) Mexico's exports to these five Central American countries topped US\$ 630 million in 2008, up almost 40 percent from 2007 but only 1.4 percent of Mexico's total global exports. 80 percent of Mexico's exports go to the United States. However, this trade bloc constitutes Mexico's fourth largest export market behind the United States, the European Union, and Canada. Mexico's top exports to Central America include iron and steel products, electrical and other types of machinery, and plastics. Imports from Central America reached US\$ 260 million in 2008, up more than 28 percent from 2007. These imported products, consisting primarily of such raw materials as grain, fats and oils, precious stones, knit

apparel - but electrical machinery from Costa Rica - constitute a mere 0.53 percent of Mexico's total global imports. In comparison, 52 percent of Mexico's global imports come from the United States, and several Asian, European and South American countries surpass Central America as major suppliers to Mexico.

15. (SBU) "We should strive to continue our strong trade partnership with North America while at the same time seek greater participation in this market," Leycegui told the audience of Mexican exporters in reference to Central America. Although Mexico and Central America both have trade agreements with North America, Mexico's proximity to the United States gives it a competitive advantage. According to Baker, securing a single Central American agreement, while strengthening NAFTA and the Arc of the Pacific forum, serves Mexico's strategy to become the fulcrum of commercial activity between Central and North America, and even Asia.

16. (SBU) COMMENT: In its trade strategy, Mexico appears to be looking beyond the current global crisis to secure the growth of its exports beyond the United States, its largest trading partner. As with Chile's efforts to position itself as the trade gateway between South America and Asia, Mexico's pursuit of a single Central American agreement points to a similar effort by the only other Latin American APEC member further up the Pacific coast. This initiative also serves to consolidate the American continent and harmonize the numerous bilateral trade agreements in the region. However, Mexico has no plans to deepen its trade ties with Asia in the near future; Mexico's trade agreement negotiations with South Korea

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have been stalled for almost two years, and the Government of Mexico has publicly ruled out the possibility of pursuing a trade agreement with China. END COMMENT.

BASSETT